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## JANUARY-MARCH 2002 BUDGET EXECUTION REPORT<sup>1</sup>

### Major Macroeconomic Indicators in January-March 2002

According to the Ministry of Economy and European Integration, Ukraine's nominal GDP amounted to UAH 42,416 million in the first quarter 2002. This corresponds to 3.8 percent real growth relative to the same period of last year. As one can see from Table 1, the level of real growth achieved in the first quarter was lower than the annual forecast of 6 percent underlying the 2002 State Budget Law. Moreover, unlike the first quarter of earlier years, when actual growth rate of real GDP was twice as high as forecasted, this year's change in GDP produced in the first quarter was negative.

**Table 1. Major Macroeconomic Indicators**  
(in Millions of Hryvnia or Percent)

	2002		2001		2000	
	Annual Forecast	January-March	Annual Forecast	January-March	Annual Forecast	January-March
GDP, million UAH	246,700	42,416	196,200	42,405	158,100	33,298
Real GDP growth*, %	6.0	3.8	4.0	7.8	2.0	5.6
Consumer price change, %	11.3	-1.1	14.3	2.7	17.6	10.0
Wholesale price change, %	9.4	-0.5	10.3	0.9	14.0	7.9

\* compared to the same period of the previous year

Source: Ministry of Economy and European Integration

The changes of both consumer and wholesale prices of January-March of the current year were negative and comprised -1.1 percent and -0.5 percent, respectively.

### Key Highlights of the Fiscal Situation as of April 1, 2002

In the first three months of 2002, consolidated revenues totaled about UAH 12.6 billion and expenditures amounted to UAH 11.9 billion. As a share of GDP, consolidated revenues in the first quarter amounted to 29.6 percent (see Table 2). As Table 2 suggests, this level of redistribution of GDP through the public sector is higher than last year's figure of 26.8 percent,

With account for transfers to local governments, State budget revenues amounted to UAH 9.1 billion, while expenditures were only UAH 8.8 billion in January-March 2002. Thus, the State budget was executed with a surplus of UAH 305 million, or 0.7 percent GDP, in the first quarter. At the same time, as Table 3 shows, the surplus is attributable to the special fund only, while the general fund of the State budget had a deficit of 21.5 million, or 0.1 percent GDP. The balance of the State budget in the first quarter of this year resembles the situation in the same period of 2001. In 2001, similar to 2002, the State budget had a surplus in the first quarter pertaining to the special fund and a deficit of 0.6 percent as a share of GDP in the general fund.

<sup>1</sup> By Natalia Kaniuk.

**Table 2. Quarter 1, 2002 Main Budget Totals**  
(in Millions of Hryvnia or Percent)

	January-March 2002			January-March 2001		
	General Fund	Special Fund	Total	General Fund	Special Fund	Total
<b>State Budget</b>						
<i>Excluding transfers</i>						
Revenues	6,633.8	1,780.0	8,413.8	5,484.3	2,145.8	7,630.0
Expenditures	5,078.3	1,422.5	6,500.9	5,137.3	1,261.8	6,399.1
<i>Including transfers</i>						
Revenues	7,286.0	1,780.0	9,066.0	5,949.9	2,191.3	8,141.2
Expenditures	7,307.4	1,453.6	8,761.0	6,224.6	1,842.6	8,067.2
<b>Surplus / Deficit (with "-")</b>	<b>-21.5</b>	<b>326.5</b>	<b>305.0</b>	<b>-274.7</b>	<b>348.7</b>	<b>74.0</b>
<i>As a share of GDP</i>						
<b>Revenues</b>	<b>17.2</b>	<b>4.2</b>	<b>21.4</b>	<b>14.0</b>	<b>5.2</b>	<b>19.2</b>
<b>Expenditures</b>	<b>17.2</b>	<b>3.4</b>	<b>20.7</b>	<b>14.7</b>	<b>4.3</b>	<b>19.0</b>
<b>Surplus / Deficit (with "-")</b>	<b>-0.1</b>	<b>0.8</b>	<b>0.7</b>	<b>-0.6</b>	<b>0.8</b>	<b>0.2</b>
<b>Local Budgets</b>						
<i>Excluding transfers</i>						
Revenues	3,498.2	652.8	4,151.0	3,260.2	480.0	3,740.3
Expenditures	4,821.4	584.5	5,405.9	3,542.3	947.1	4,489.4
<i>Including transfers</i>						
Revenues	5,727.3	683.9	6,411.1	4,347.5	1,060.8	5,408.4
Expenditures	5,473.6	584.5	6,058.1	4,053.2	947.4	5,000.6
<i>As a share of GDP</i>						
<b>Revenues</b>	<b>13.5</b>	<b>1.6</b>	<b>15.1</b>	<b>10.3</b>	<b>2.5</b>	<b>12.8</b>
<b>Expenditures</b>	<b>12.9</b>	<b>1.4</b>	<b>14.3</b>	<b>9.6</b>	<b>2.2</b>	<b>11.8</b>
<b>Consolidated Budget</b>						
Revenues	10,132.0	2,432.9	12,564.8	8,744.5	2,625.8	11,370.3
Expenditures	9,899.7	2,007.1	11,906.8	8,679.6	2,208.9	10,888.5
<i>As a share of GDP</i>						
<b>Revenues</b>	<b>23.9</b>	<b>5.7</b>	<b>29.6</b>	<b>20.6</b>	<b>6.2</b>	<b>26.8</b>
<b>Expenditures</b>	<b>23.3</b>	<b>4.7</b>	<b>28.1</b>	<b>20.5</b>	<b>5.2</b>	<b>25.7</b>

Source: State Treasury of Ukraine

**Table 3. State Budget Financing in January-March of 2002 and 2001**  
(in Millions of Hryvnia or Percent)

	2002						2001	
	General Fund		Special Fund		Total (General + Special)		Total (General + Special)	
	Annual Plan	Jan-Mar Actual	Annual Plan	Jan-Mar Actual	Annual Plan	Jan-Mar Actual	Annual Plan	Jan-Mar Actual
Surplus / Deficit ("-")	-2,907.8	-21.5	-1,275.2	326.5	-4,183.0	305.0	-5,797.4	74.0
<i>As a share of GDP</i>	<b>-1.2</b>	<b>-0.1</b>	<b>-0.5</b>	<b>0.8</b>	<b>-1.7</b>	<b>0.7</b>	<b>-3.0</b>	<b>0.2</b>
Primary Surplus / Deficit ("-")	1,045.2	820.9	-1,275.2	326.5	-229.9	1,147.4	242.9	1,079.2
<i>As a share of GDP</i>	<b>0.4</b>	<b>1.9</b>	<b>-0.5</b>	<b>0.8</b>	<b>-0.1</b>	<b>2.7</b>	<b>0.1</b>	<b>2.5</b>
<b>Sources of Financing</b>								
<b>Domestic sources</b>	<b>4,598.5</b>	<b>1,059.9</b>	<b>330.8</b>	<b>-326.5</b>	<b>4,929.3</b>	<b>733.5</b>	<b>241.3</b>	<b>-733.3</b>
including:								
Privatization	5,584.3	200.3	240.8	0.0	5,825.1	200.3	5,902.5	735.6
Changes in cash balances	0.0	965.1	0.0	-326.5	0.0	638.7	0.0	-820.2
<b>Foreign sources</b>	<b>-1,690.7</b>	<b>-1,038.5</b>	<b>944.3</b>	<b>0.0</b>	<b>-746.4</b>	<b>-1,038.5</b>	<b>-85.2</b>	<b>-211.0</b>

\* Primary surplus (deficit) is calculated as a difference between revenues and expenditures less debt servicing

Source: State Treasury of Ukraine

## State and Local Revenues

In the first quarter of the current year, consolidated revenues totaled UAH 12.6 billion, which exceeded the estimated number for the first quarter of 2002 by UAH 737.7 million, or 6.2 percent, and was higher by UAH 1,057 million, or 13 percent, relative to the amount of revenues collected in the same period of 2001 (real growth is 10.6 percent).

Revenue execution was more successful at the local level compared to the central level. The annual target for local revenues was executed in the first quarter to 24.7 percent, while for the State budget this figure was only 19.8 percent. The main reason for the favorable local governments' stance is the continued outstripping of the forecast for the personal income tax. However, not only revenues of local governments but also State budget revenues exceeded the estimated benchmarks for the period. Moreover, they were up in real terms compared to the same figures of last year.

**Table 4. Consolidated Revenues (General and Special Funds) Compared to Annual Targets and Year-to-date Benchmarks**  
(in Millions of Hryvnia or Percent)

	Annual Budget	Jan-March 2002 Benchmark	Jan-March 2002 Actual	% of Annual Budget	Actual Less Target	
					nominal	%
<b>Tax revenues</b>	<b>44 763</b>		<b>9 196</b>	<b>20,5</b>		
VAT	12 888	2 554	2 682	20,8	128	5,0
Personal income tax	9 937	1 961	2 257	22,7	296	15,1
Enterprise profit tax	11 627	2 431	1 967	16,9	-464	-19,1
Excise taxes	3 478	713	708	20,4	-5	-0,7
Resource-based taxes	2 310	459	542	23,4	83	18,1
Import duty	2 049	420	403	19,7	-17	-3,9
Local taxes and fees	500	105	122	24,4	17	15,9
<b>Non-tax revenues</b>	<b>13 119</b>	<b>2 498</b>	<b>2 999</b>	<b>22,9</b>	<b>501</b>	<b>20,1</b>
<b>State Targeted Funds</b>	<b>308</b>	<b>71</b>	<b>124</b>	<b>40,3</b>	<b>53</b>	<b>75,3</b>
Other	1 069	687	246	23,0	-441	-64,2
<b>Total revenues</b>	<b>59 259</b>	<b>11 827</b>	<b>12 565</b>	<b>21,2</b>	<b>737,7</b>	<b>6,2</b>

\* Presented benchmark figures are not official but are instead estimated on the basis of budget execution statistics over the last four years

Source: State Treasury of Ukraine

## Actual Compared to Budgeted Revenues

Consolidated revenues collected in the first quarter of 2002 amounted to 21.2 percent of the annual target approved in the State Budget Law. The benchmark for the period was outstripped by UAH 737.7 million, or 6.2 percent (see Table 4).

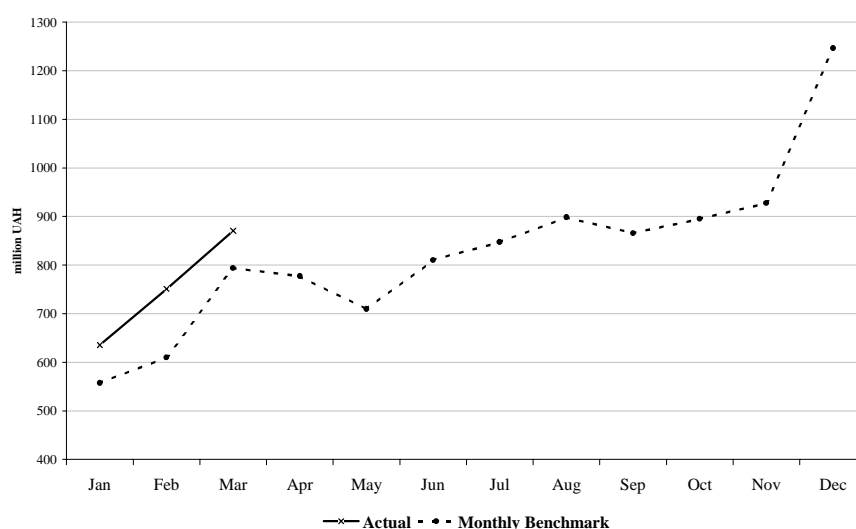
The highest levels of execution pertain to the revenue sources payable to local budgets.

- ◆ Among all revenues of the consolidated budget, the target for the *personal income tax* was outstripped by the largest amount. In the first quarter, this revenue source was UAH 296 million, or 15.1 percent, higher relative to the period's benchmark. Compared to the annual target approved in the State Budget Law, actual proceeds from the personal income tax in January-March were at a 22.7 percent level, the second highest figure after resource-based taxes.
- ◆ Figure 1 shows month-by-month figures of the actual execution of the *personal income tax* compared to respective benchmarks. As one can see, actual collections exceeded the relevant benchmarks in each of the three months in the first quarter but the highest excess was observed in February. (As will be discussed later in this report, this was the month when the State Budget execution was less successful compared to other months).
- ◆ Other, less important, local revenue sources were also ahead of schedule approved in the State Budget Law. Though in absolute terms the outstripping of the targets for these revenue sources was not very high and did not effect the totals in the consolidated budget, in percentage terms

these local revenues exceeded their targets more considerably than other revenue sources. Specifically, *resource-based taxes* showed the highest level of exceeding the target compared to other tax revenues – 18.1 percent. It is worth noting that the *land tax* (which, in pursuance of the Budget Code, is paid to local budgets) accounts for almost 80 percent of this revenue category.

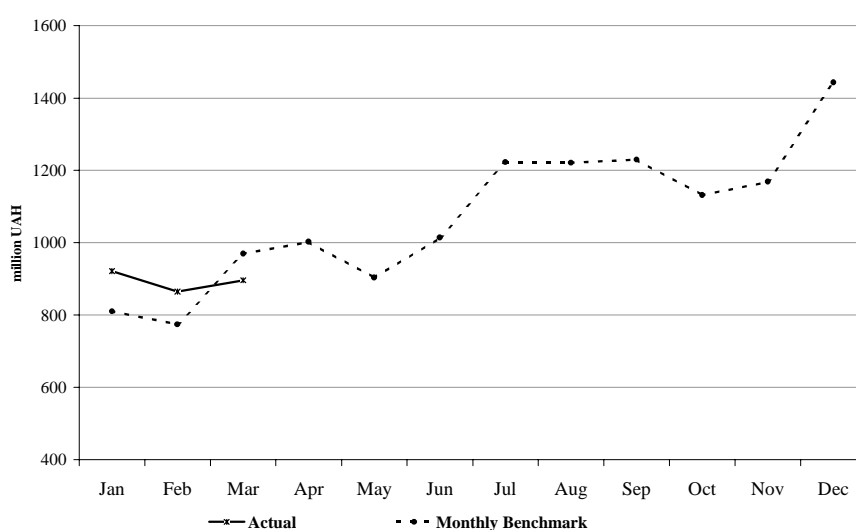
- ◆ The second largest outstripping of the target was achieved in *local taxes and fees* – 15.9 percent (the annual target was executed 24.4 percent in the first quarter).

**Figure 1. Month-by-Month Receipts of the Personal Income Tax in 2002**



Among tax revenues of the State budget, the largest excess over the period's benchmark was achieved in the *value-added tax* – UAH 296 million, or 15.1 percent. The amount of VAT collected over the first three months of 2002 corresponds to 22.7 percent of the annual target. Though, as Figure 2 suggests, the amount of excess over the benchmark decreased throughout the quarter, and in March the amount of actual VAT collections was lower than the relevant benchmark, the cumulative figure for the period as a whole exceeded the relevant benchmark.

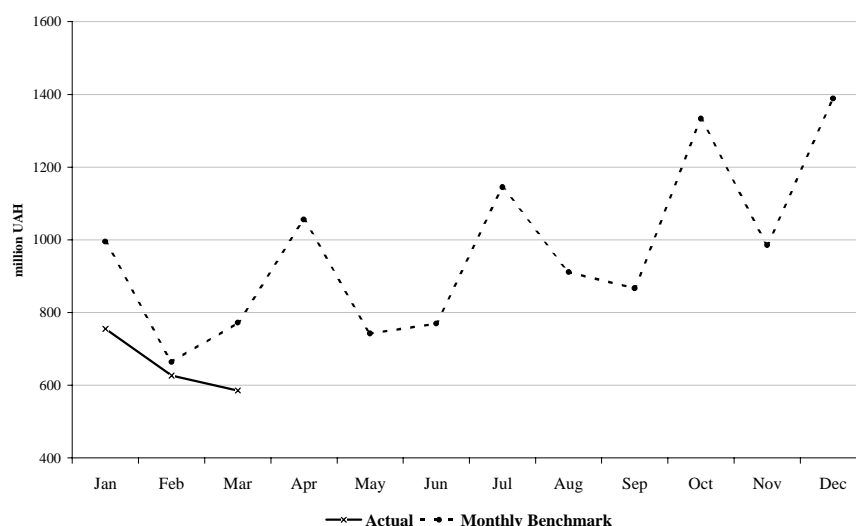
**Figure 2. Month-by-Month Receipts of the Value-added Tax in 2002**



The *enterprise profit tax* was the tax revenue in the largest shortfall over the first quarter 2002. As suggested by Table 4, proceeds of this revenue in January-March totaled UAH 1,967 million, which is UAH 464 million, or 19.1 percent, lower than the period's benchmark. Compared to the annual target,

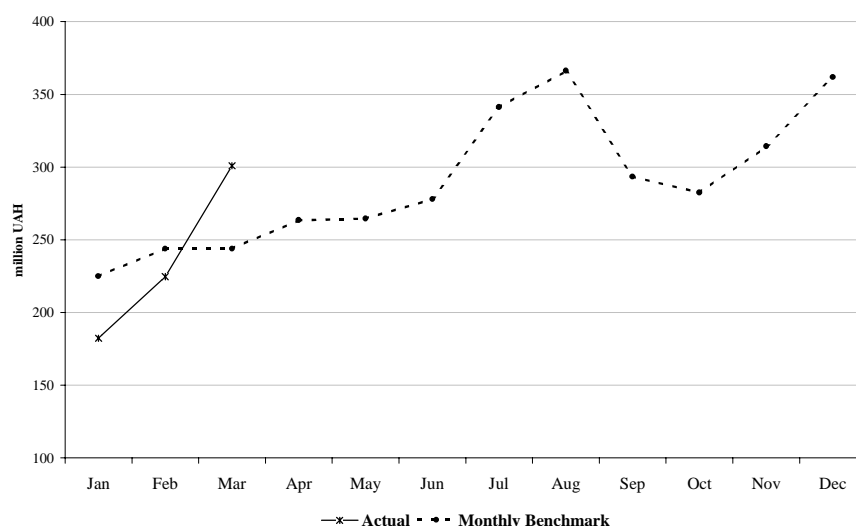
actual revenues in the first quarter amounted to 16.9 percent. Figure 3 shows the month-by-month changes in the enterprise profit tax in the first quarter and compares actual revenues with the benchmarks for the respective months. As one can see, there were budget shortfalls in all the three months of the quarter, though in February the shortfall was the smallest.

Figure 3. Month-by-Month Receipts of the Enterprise Profit Tax in 2002



The second largest shortfall among tax revenues occurred to the *excise taxes*. In January-March, UAH 708 million of excise revenues were collected, representing 20.4 percent of the annual target and being UAH 5 million, or 0.7 percent, smaller relative to the period's benchmark. Actual amounts of the excises collected in the first quarter differ considerably between the domestic and foreign goods. While *excises on domestic goods* amounted to 24 percent of the annual target, *excises on imports* were as low as 8.8 percent of the annual plan.

Figure 4. Month-by-Month Receipts of Excise Taxes in 2002



**Non-tax revenues** of the consolidated budget were considerably ahead of schedule in the first quarter of 2002. The amount of non-tax revenues in January-March totaled UAH 2,999 million, which is 22.9 percent of the annual plan and is higher by UAH 501 million, or 20.1 percent, relative to the period's benchmark.

- ◆ Similarly to earlier years, within the category of non-tax revenues, *user charges* were considerably ahead of schedule in the first quarter (28 percent of the annual target).
- ◆ Besides, *rental payments for oil and natural gas produced in Ukraine* amounted to UAH 212 million as compared to the annual target of UAH 638 million.
- ◆ Unlike earlier years, at the very beginning of 2002, the State budget received almost the full budgeted sum of the National Bank's surplus. Out of UAH 200 million planned in the annual budget, the National Bank of Ukraine transferred to the budget UAH 190 million (or 95 percent). In earlier year, these payments were typically made later in the year.
- ◆ The shift of *proceeds from transit of gas through the territory of Ukraine* from the special fund to the general fund in the 2002 budget did not affect the rate of execution of this revenue source. Similarly to last year, between January-March this revenue source brought the budget 18 percent of the annual target.

### Revenue Execution Compared to Last Year

With account for inflation, consolidated revenues increased in the first quarter of 2002 by 8.2 percent relative to the same period of 2001, tax revenues being up 10.6 percent and non-tax revenues growing by 8.3 percent (see Table 5).

**Table 5. Consolidated Revenues in January-March 2002 versus 2001**  
(in Millions of Hryvnia or Percent)

	Actual		Change		
	Jan-March 2002	Jan-March 2001	Nominal	Nominal, %	Real, %
<b>Tax revenues</b>	<b>9,196</b>	<b>8,138</b>	<b>1,057</b>	<b>13.0</b>	<b>10.6</b>
VAT	2,682	2,089	593	28.4	25.7
Personal income tax	2,257	1,807	450	24.9	22.3
Enterprise profit tax	1,967	2,099	-132	-6.3	-8.3
Excise taxes	708	610	97	16.0	13.5
Resource-based taxes	542	512	30	5.8	3.6
Import duty	403	409	-6	-1.5	-3.5
Local taxes and fees	122	116	6	5.0	2.8
<b>Non-tax revenues</b>	<b>2,999</b>	<b>2,711</b>	<b>288</b>	<b>10.6</b>	<b>8.3</b>
<b>State Targeted Funds</b>	<b>124</b>	<b>399</b>	<b>-275</b>	<b>-68.9</b>	<b>-69.6</b>
Other	246	122	124	101.7	97.5
<b>Total revenues</b>	<b>12,565</b>	<b>11,370</b>	<b>1,195</b>	<b>10.5</b>	<b>8.2</b>

Source: State Treasury of Ukraine

The following observations can be drawn from the comparison of this year's first quarter with the same period of last year on a tax-by-tax basis:

- ◆ The largest both nominal (UAH 593 million, or 28.4 percent) and real (25.7 percent) increases occurred to the *value-added tax*.
- ◆ The second largest increase was achieved in the amount of the *personal income tax*. Nominally, it went up UAH 450 million, or 24.9 percent. With account for inflation, this revenue source grew by 22.3 percent.
- ◆ *Excise taxes* also increased relative to last year – by UAH 97 million, or 16 percent, nominally and by 13.5 percent in real terms.
- ◆ A decline occurred to the *enterprise profit tax*, which went down both nominally (UAH 132 million, or 6.3 percent), and with account for inflation (8.3 percent).

- ◆ *Non-tax revenues* of the consolidated budget increased in the first quarter of 2002 compared to the same period of 2001. They showed a UAH 288 million (or 10.6 percent) growth. Accounting for inflation, this increase is 8.3 percent.
- ◆ Table 5 shows a considerable reduction of *targeted funds*' receipts (UAH 275 million, or almost 70 percent both in nominal and real terms). This decrease, however, is attributable to a shift in the structure of this part of the budget (specifically, liquidation of the *State Innovation Fund* that occurred in 2000) rather than to a decline of targeted funds' proceeds. Though this revenue item disappeared from the budget after 2000, in the first quarter of 2001 amounts of non-paid fees continued to proceed to the innovation fund; these were accounted under the category of *State targeted funds* and this amount was rather weighty in the first quarter of 2001 – about UAH 220 million. In 2002 these payments discontinued; and the figure of proceeds of the targeted funds appeared to be appreciably lower than last year.

### Structure of Consolidated Revenues

Table 6 contains information on the structure of consolidated revenues as of the end of the first quarter 2002. As one can see, tax revenues accounted for more than 73 percent of all budget revenues; this share is larger than last year. The most weighty revenue source of the consolidated budget is *value-added tax*. Its share was 21.3 percent in the first quarter of this year. In the same period of last year, VAT ranked second after the enterprise profit tax, whose share shrank from 19 to 16 percent this year as a result of its decline.

**Table 6. Consolidated Revenue Structure Compared to January-March 2001  
(in Percent of Total)**

	Actual		Plan	
	Jan-March 2002	Jan-March 2001	2002	2001
<b>Tax revenues</b>	<b>73.2</b>	<b>71.6</b>	<b>75.5</b>	<b>75.9</b>
VAT	21.3	18.4	21.7	24.7
Personal income tax	18.0	15.9	16.8	14.7
Enterprise profit tax	15.7	18.5	19.6	18.1
Excise taxes	5.6	5.4	5.9	6.1
Resource-based taxes	4.3	4.5	3.9	4.2
Import duty	3.2	3.6	3.5	3.4
Local taxes and fees	1.0	1.0	0.8	1.1
<b>Non-tax revenues</b>	<b>23.9</b>	<b>23.8</b>	<b>22.1</b>	<b>22.5</b>
<b>State Targeted Funds</b>	<b>1.0</b>	<b>3.5</b>	<b>0.5</b>	<b>0.9</b>
Other	2.0	1.1	1.8	0.7
<b>Total revenues</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: State Treasury of Ukraine

### Expenditures

In the first quarter 2002, consolidated expenditures totaled UAH 11.9 billion, or 18.8 percent of the annual target. While at the central level, the rate of expenditure execution (excluding transfers) is only 16 percent, local budget rate is traditionally much higher – about 24 percent (see Table 9).

The levels of execution of expenditures allocated to the general and special funds is as follows: general fund of the State budget – 16.4 percent of the annual amount and 78.6 percent of the target for the period; general fund of local budgets – 23.3 percent of the annual target; special fund of the State budget – 14.9 percent; special fund of local budgets – 26.9 percent.



Due to the fact that financing of subvention to local budgets for benefits and subsidies to population for electricity, natural gas, heating, water supply, and communications was shifted in 2002 from the special fund to general fund, the share of the local budgets' special fund shrank by 10 percentage points compared to 2001 and comprises only 10.8 percent in the first quarter of 2002. On the other hand, the share of the central government's special fund financing increased by 2.2 percentage points compared to last year. At the same time, as Table 10 suggests, actual share of special funds of the State budget was 1.7 percentage point lower in the first quarter 2002 compared to the budgeted target.

**Table 9. Expenditure Execution in January-March 2002**  
(in Millions of Hryvnia or Percent)

	Jan-Mar 2002 Actual			Actual as % of Plan			
	General Fund	Special Fund	Total	General Fund Jan-Mar	General Fund Annual	Special Fund Annual	Total Annual
<b><u>State Budget</u></b>							
General public services	1,512.1	76.7	1,588.9	70.1	17.7	19.0	17.8
<i>including: debt servicing</i>	842.4	0.0	842.4	80.9	21.3	NP	21.3
Defense	566.4	128.3	694.7	91.2	20.8	9.3	16.9
Civil order, security and judiciary	684.8	190.6	875.4	86.8	18.6	31.8	20.5
Economic affairs	395.0	220.0	614.9	49.3	7.9	7.1	7.6
Environment protection	82.3	6.2	88.6	63.7	13.4	6.0	12.3
Housing and communal sector	0.7	0.0	0.7	26.1	3.9	0.0	1.0
Health care	203.7	62.9	266.6	73.4	11.8	17.5	12.8
Cultural and physical development	55.9	15.0	70.9	61.5	9.8	33.0	11.5
Education	495.2	387.5	882.7	82.5	17.8	20.3	18.8
Social protection and social security	1,073.1	335.4	1,408.4	108.0	20.3	20.6	20.4
<b>Total</b>	<b>5,078.3</b>	<b>1,422.5</b>	<b>6,500.9</b>	<b>78.6</b>	<b>16.4</b>	<b>14.9</b>	<b>16.0</b>
Intergovernmental transfers	2,229.1	31.0	2,260.1	109.1	25.3	13.9	25.0
<b>Total including tranfers</b>	<b>7,307.4</b>	<b>1,453.6</b>	<b>8,761.0</b>	<b>85.9</b>	<b>18.4</b>	<b>14.9</b>	<b>17.7</b>
<b><u>Local budgets</u></b>							
<b>Total</b>	<b>4,821.4</b>	<b>584.5</b>	<b>5,405.9</b>		<b>23.3</b>	<b>26.9</b>	<b>23.6</b>
Intergovernmental transfers	652.2	0.0	652.2		21.1	NP	21.1
<b>Total including tranfers</b>	<b>5,473.6</b>	<b>584.5</b>	<b>6,058.1</b>		<b>23.0</b>	<b>26.9</b>	<b>23.3</b>
<b><u>Consolidated budget</u></b>							
<b>Total Expenditures</b>	<b>9,899.7</b>	<b>2,007.1</b>	<b>11,906.8</b>		<b>19.1</b>	<b>17.1</b>	<b>18.8</b>

NP - not planned

Source: State Treasury of Ukraine

### ***Actual Compared to Budgeted Expenditures***

As mentioned above, the rate of execution of the State budget in the first quarter was considerably lower than that of local budgets. While local governments' expenditures between January-March represented 23.6 percent of the annual target approved in the State Budget Law, overall State budget spending net of transfers was only 16 percent.

Transfers from the State government to local governments were funded at a rate, which exceeded the benchmark by 9 percent. Relative to the annual target, the central government provided to local governments 25.3 percent of transfers. These include: subvention for benefits related to communal services, which amounted to 29 percent of the annual target, and subvention for cash aid to families with young children, which was funded at a level of 25 percent of the annual amount.

In-detail information on the execution of general fund outlays of the State government on a function-by-function basis is provided below (refer to Table 9).

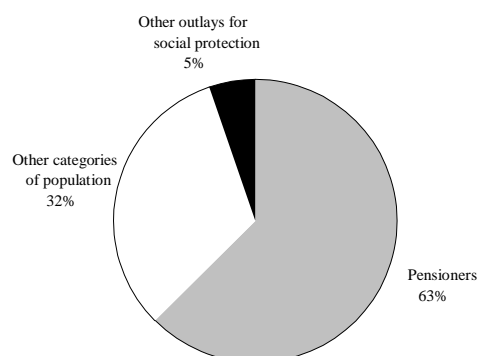
- ◆ The only expenditure function of the State budget that was not behind schedule in the first quarter was **social protection and social security**. As suggested by Table 9, this program of the general fund totaled UAH 1,073 million, or 20.3 percent of the annual target and 108 percent of the period's benchmark.

Figure 5 shows the structure of spending for social protection in the first three months of the year. Almost 63 percent of the overall amount of this function fell to financing of *social protection of pensioners*, which is funded almost in line with schedule. As of April 1, 2002, this social-protection program was funded at the level of about 24 percent of the annual target.

The second largest constituent of social protection, according to new functional classification, was *protection of other categories of population*, which includes, among other programs, protection of *citizens who suffered from the Chornobyl catastrophe*. In March of this year, the government spent on this program an amount that corresponds to 148 percent of the period's benchmark and, thereby, remedied the adverse situation that was observed in the first two months of this year. Thus, a level of 19.3 percent of the annual target was achieved.

The share of State government's outlays for social protection funded at the cost of special funds, was 23.8 percent, which is up 4.4 percentage point relative to the first quarter of 2001.

**Figure 5. Structure of Social Protection Spending from the State Budget in January-March 2002**



- ◆ The remaining nine expenditure categories of the State budget were funded in the first quarter in amounts lower than budgeted. The rate of execution of particular categories ranged widely – from 91 percent (*defense*) to 49 percent (*economic activity*).
- ◆ In this group of nine expenditure functions, the *highest* rate of execution was achieved in spending for **defense** (UAH 695 million, or 91.2 percent of the benchmark for the first quarter and 20.8 of the annual target). Within this expenditure category, the best result of about 24 percent of the annual target was achieved in financing of *military education*. At the same time, spending for *civil defense* was funded at the level of only 11.6 percent of the annual amount.
- ◆ The second largest rate of execution of the period's benchmark was reached in financing of **public order, safety, and judiciary** (this category was funded at a level of 87 percent of the annual target). Particular sub-categories in this broad function were also funded in an uneven manner: the function of *activity in the area of the State's safety* reached, in the first quarter, 22.3 percent of the annual target, while *judiciary* was funded at a level of 10.9 percent only.
- ◆ The *lowest* rate of execution of the first quarter's benchmark was reported for **communal services** (26.1 percent of the benchmark and only 1 percent of the annual target).
- ◆ The second lowest rate of execution was shown by spending for **economic activity**: this function was funded in an amount of UAH 394.9 million, which corresponds to 49.3 percent of the period's benchmark and only 7.9 percent of the annual amount. This low rate of execution is attributable to the fact that the category of *economic activity*, according to the new functional classification, contains a sub-category of *repayment of budgetary loans*, and since in the first quarter a number of loans granted from the State budget for purposes of financing of capital projects at the cost of funds raised by the State (amounting to UAH 298.5 million) were repaid, the execution figure for this sub-category was negative and this affected the cumulative figure for

the function. If financing of *economic activity* is considered net of this sub-category, the amount of financing is close to UAH 693.5 million and the percentage of execution of the annual target is 14.7 and that of the period's benchmark is 82.5 percent.

Specific sub-categories within this function were executed in January-March of the current year as follows:

- ✓ The lowest rate of financing is reported for *agriculture* – 10.7 percent of the annual amount (in fact, this spending depends, to a considerable extent, on seasonality);
- ✓ *Fuel/energy sector* and *transport* were funded to 15 percent and 25 percent of the respective annual amounts;
- ✓ *General economic, commercial, and labor affairs*, which include programs dealing with development of the private sector, hydrometeorological activity, management in the area of intellectual property and regulatory policy, management in pricing, and other activities, were funded at a level that corresponds to 21 percent of the annual target;
- ✓ *Communication, telecommunications, and IT* were funded to only 12 percent of the target set for the current year.

A rather high share of special fund outlays in the function of *economic activity* is attributable to expenses of the *road fund* (under *transport* category) and some programs in the field of *agriculture*.

- ◆ Also, one of the lowest rates of execution in the first quarter was reported for ***cultural and physical development***, which was funded to 61.5 percent of the period's benchmark and 11.5 of the annual amount. Especially considerable delay is observed in funding *artistic unions, press, and national parks*.
- ◆ Key highlights for other expenditure functions are as follows:
  - ✓ ***Education***. The rate of execution of the annual plan for this function (general fund) was 17.8 percent; the period's benchmark was executed at a level of 82.5 percent. The overall figure for the general and special funds was higher – almost 19 percent of the annual amount. This is explained by the fact that the share of spending funded through the special fund is the highest among all expenditure functions (almost 44 percent as suggests by Table 10). In addition, special outlays in this category were executed at a higher level compared to the other functions (see Table 9).
  - ✓ ***Health care***. In the first quarter of 2002 this function was funded to 11.8 percent of the annual amount, or 73.4 percent of the period's benchmark. Health institutions managed to remedy this situation to some extent due to user charges and funded special expenditures to a level of 12.8 percent of the annual target.
  - ✓ ***General public services***. The rate of execution of the first quarter's benchmark was as low as 70 percent, that for the annual target being 17.7 percent. Within this function, most programs were funded in a relatively even manner: *financial and fiscal affairs* – 73.5 percent of the period's benchmark, *foreign policy affairs* – 61 percent, *fundamental research* – 72.2 percent, *State debt servicing* – 80.9 percent. At the same time, within this broad category of the State budget, the execution of *other State administration services* stands out particularly – this category was funded at a level of only 1.4 percent of the annual target. This is explained by the fact that the lion's share (about 93 percent) of this spending falls to the *reserve fund of the Cabinet of Ministers*, which was shifted to this function as a result of implementation of a new budget classification. Since this fund is reserve by nature, the principle of use of resources from this fund differs from general schemes of proportional financing of State expenditures.

Between January-March of the current year, outlays funded at the cost of special funds were executed in line with schedule. The average rate of execution of the annual target in the function of *general public services* was 19 percent ranging from 27 percent for *higher State administration bodies* to 10.7 percent for financing of *general planning and statistics*. The share of special funds in overall spending was reported to be 4.8 percent (vis-à-vis the target of 4.5 percent) in the first quarter 2002, which is down 2 percentage points relative to the same period of last year.

**Table 10. Special Funds as a Share of Overall Spending of the State and Local Budgets  
(in Percent)**

	State Budget				Local Budgets			Consolidated Budget		
	Jan-Mar 2002	Jan-Mar 2001	Plan 2002	Plan 2001	Jan-Mar 2002	Jan-Mar 2001	Plan 2001	Jan-Mar 2002	Jan-Mar 2001	Plan 2001
General state functions	4.8	6.9	4.5	4.0	15.6	15.1	12.5	6.8	7.5	4.6
Defence	18.5	25.8	33.5	26.8	NP	1.4	NP	18.5	25.7	26.8
Civil order, security and	21.8	18.9	14.0	8.8	4.9	14.3	0.0	20.6	18.6	8.5
Economic activities	35.8	19.6	38.1	35.2	79.6	33.9	75.1	49.8	24.8	39.9
Environment protection	7.0	5.7	14.5	8.6	98.5	98.8	99.9	17.9	17.0	15.2
Housing and communal	0.0	0.9	74.2	0.0	5.8	3.4	0.1	5.8	3.4	0.1
Health care	23.6	24.7	17.3	15.1	7.6	6.6	4.1	10.4	10.2	6.9
Human development and	21.1	15.1	7.4	5.9	8.1	11.9	6.3	11.5	12.6	6.1
Education	43.9	49.2	40.7	36.6	7.8	5.5	2.3	20.4	21.5	16.5
Social protection	23.8	19.2	23.5	19.6	2.2	51.8	56.0	13.3	32.3	36.3
<b>Total</b>	<b>21.9</b>	<b>19.7</b>	<b>23.6</b>	<b>18.6</b>	<b>10.8</b>	<b>21.1</b>	<b>22.9</b>	<b>16.9</b>	<b>20.4</b>	<b>20.1</b>

NP - not planned

Source: State Treasury of Ukraine

### **Expenditures in 2002 versus 2001**

Underfinancing of central level spending rubbed off on the comparison with the State budget execution in January-March of last year. Table 14 suggests a 1.1-percent nominal decline in financing of general fund expenditures of the State budget. In real terms, the decline is 3.2 percent. With account for transfers, however, real outlays funded in the first quarter of 2002 were 14.9 percent higher relative to 2001.

Unlike spending of the State budget, financing of local expenditures increased considerably (by 33.2 percent in real terms). This is true for both total amount and particular functions. Due to a rather sizable increase in spending at the local level, the consolidated total was also up in the first quarter of the current year compared to the same period of 2001. The growth was 14.1 percent in nominal terms and 11.6 percent with account for inflation.

Key highlights of changes in financing of particular expenditure categories (general fund) compared to last year's figures are as follows (see Table 11):

- ◆ Between January-March 2002, the largest increase in consolidated expenditures occurred to **education** – 38.3 percent in nominal and 35.4 percent in real terms. The growth of education in the State budget is even more weighty: 48 percent nominally and 45 percent with account for inflation. At the local level, this spending also increased in both nominal and real terms (35.4 and 32.5 percent, respectively).

- ◆ The second largest percentage increase was observed in spending for **defense** – compared to the first quarter of 2001 financing of this program increased by almost 30 percent in nominal terms and 27 in real terms.

**Table 11. General Fund Expenditures in January-March 2002 and 2001**  
(in Millions of Hryvnia or Percent)

	State Budget				Local Budgets				Consolidated Budget			
	Jan-Mar 2002	Jan-Mar 2001	Nominal Change %	Real Change %	Jan-Mar 2002	Jan-Mar 2001	Nominal Change %	Real Change %	Jan-Mar 2002	Jan-Mar 2001	Nominal Change %	Real Change %
General public services	1,512.1	1,498.6	0.9	-1.2	294.2	208.0	41.5	38.5	1,806.3	1,706.6	5.8	3.6
<i>including: debt servicing</i>	842.4	1,005.2	-16.2	-18.0	6.6	NP	NP	NP	849.0	1,005.2	-15.5	-17.3
Defense	566.4	436.1	29.9	27.1	NP	0.6	NP	NP	566.4	436.8	29.7	26.9
Civil order, security and judiciary	684.8	599.0	14.3	11.9	61.5	48.1	27.9	25.2	746.3	647.1	15.3	12.9
Economic affairs	395.0	574.3	-31.2	-32.7	59.4	263.9	-77.5	-78.0	454.3	838.2	-45.8	-46.9
Environment protection	82.3	115.8	-28.9	-30.4	0.2	0.2	-4.6	-6.6	82.5	115.9	-28.8	-30.3
Housing and communal sector	0.7	3.1	-78.8	-79.3	241.4	204.2	18.2	15.7	242.0	207.4	16.7	14.2
Health care	203.7	182.1	11.8	9.5	1,161.7	990.5	17.3	14.8	1,365.3	1,172.6	16.4	14.0
Cultural and physical development	55.9	44.0	27.1	24.4	182.4	157.0	16.2	13.7	238.3	201.0	18.6	16.1
Education	495.2	334.2	48.2	45.1	1,522.2	1,124.4	35.4	32.5	2,017.4	1,458.6	38.3	35.4
Social protection and social security	1,073.1	1,350.0	-20.5	-22.2	1,298.5	545.5	138.1	133.0	2,371.6	1,895.4	25.1	22.5
<b>Total</b>	<b>5,078.3</b>	<b>5,137.3</b>	<b>-1.1</b>	<b>-3.2</b>	<b>4,821.4</b>	<b>3,542.3</b>	<b>36.1</b>	<b>33.2</b>	<b>9,899.7</b>	<b>8,679.6</b>	<b>14.1</b>	<b>11.6</b>
Intergovernmental transfers	2,229.1	1,087.3	105.0	100.7	652.2	510.9	27.7	25.0				
<b>Total including transfers</b>	<b>7,307.4</b>	<b>6,224.6</b>	<b>17.4</b>	<b>14.9</b>	<b>5,473.6</b>	<b>4,053.2</b>	<b>35.0</b>	<b>32.2</b>				

NP - not planned

Source: State Treasury of Ukraine

- ◆ Despite the lower than budgeted execution of financing for **health care** and **cultural and physical development** by the central government, compared to last year, these two functions were up 9.5 and 24.4 percent, respectively. Besides, there was a real increase in these expenditures on the local level: by 14.8 percent for health care and by 13.7 percent for cultural and physical development.
- ◆ State budget spending for **social protection** declined by 22 real percent; however, due to a considerable increase in local spending, the consolidated growth reached 22.5 percent in real terms.
- ◆ When comparing outlays for **economic affairs** in the first quarter of the current year with the same last year's period, it should be noted once again that, for the comparison to be correct, the overall figure should be adjusted for the amount of loans from the State budget (about UAH 300 million) repaid in January-March of the current year. With account for this adjustment, financing of economic affairs was at last year's level.
- ◆ If spending for **general public services** is considered net of State debt servicing, a real decline of 1.2 percent suggested by Table 14 transforms into a rather considerable real growth of 32.8 percent. Thus, financing of spending for State administrative bodies, as well as financial and fiscal affairs, continued in January-March of the current year the earlier years' upward trend.
- ◆ With account for the above comments, the only expenditure function that declined considerably in 2002 compared to 2001 was **environmental protection**. Between January-March of the current year, this function went down compared to the same period of 2001 almost 29 percent in nominal terms and 30.3 percent with account for inflation.

### Structure of General Fund Expenditures

The structure of both budgeted and actual expenditures of the general fund of the State budget in 2002 suggests certain reallocation of financial resources and changes in priorities (see Table 12).

**Table 12. Structure of General Fund Expenditures  
(in Percent of Total)**

	State Budget				Local Budgets			Consolidated Budget		
	Jan-Mar 2002	Jan-Mar 2001	Plan 2002	Plan 2001	Jan-Mar 2002	Jan-Mar 2001	Plan 2001	Jan-Mar 2002	Jan-Mar 2001	Plan 2001
General public services	29.8	29.2	27.6	33.4	6.1	5.9	4.3	18.2	19.4	23.8
<i>including: debt servicing</i>	16.6	19.6	12.8	20.7	0.1	0.0	0.0	8.6	11.6	13.9
Defense	11.2	8.5	8.8	7.4	0.0	0.0	0.0	5.7	5.1	5.0
Civil order, security and judiciary	13.5	11.7	11.9	10.4	1.3	1.4	1.0	7.5	7.5	7.3
Economic affairs	7.8	11.2	16.2	14.0	1.2	7.4	1.5	4.6	9.6	9.9
Environment protection	1.6	2.3	2.0	2.2	0.0	0.0	0.0	0.8	1.3	1.5
Housing and communal sector	0.0	0.1	0.1	0.1	5.0	5.8	7.3	2.4	2.4	2.5
Health care	4.0	3.5	5.6	4.6	24.1	28.0	30.4	13.8	13.6	13.1
Cultural and physical development	1.1	0.9	1.8	1.7	3.8	4.4	2.7	2.4	2.3	2.0
Education	9.8	6.5	9.0	8.0	31.6	31.7	35.5	20.4	17.0	17.0
Social protection and social security	21.1	26.3	17.1	18.2	26.9	15.4	17.3	24.0	21.9	17.9
<b>Total</b>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Additional financial resources stemming from the decrease in spending for State debt servicing in 2002 allowed the government to increase the financing of certain programs. Relative to the first quarter of 2001, the share of *education* in total expenditures increased by 3 percentage points, *public order and judicial power* – by 1.8 percentage point, *defense* – by 2.7 percentage point, *health care* – by 0.5 percentage point. The change between actual shares of individual functions and their respective targets is explained by uneven financing of certain general fund expenditures by the government.

At the local level, worth noting is the 4 percentage point decrease in the actual share of health care.

To sum up, it should be noted that the share of social expenditures of the central government (including education, health care, and social protection) was 34.9 percent in the first quarter of 2002 versus 36.3 percent in the same period of last year. On a consolidated basis, this indicator went up 5.6 percentage point, but it should be reemphasized that this occurred due to the shifts in the sources of financing for social protection.

### ***Local Expenditures as a Share of Consolidated Expenditures***

Table 13 shows the shares of local expenditures in the consolidated budget. In the first quarter of 2002, the share of total local expenditures was 48.7 percent versus a planned target of 40.1 percent. The 8.6-percentage point difference between the actual share and the target is close to that reported in the first quarter of 2001.

**Table 13. Local Expenditures as a Share of Consolidated Expenditures  
(in Percent)**

	2002		2001		2000	
	Annual Plan	Jan-Mar Actual	Annual Plan	Jan-Mar Actual	Annual Plan	Jan-Mar Actual
General public services		16.3	6.0	12.4	5.1	23.6
Defense		0.0	0.0	0.1	0.5	1.4
Civil order, security and judiciary		8.2	4.4	7.4	6.4	15.0
Economic affairs		13.1	4.9	31.9	6.7	35.0
Environment protection		0.2	0.0	0.2	0.0	0.5
Housing and communal sector		99.7	97.8	98.5	99.0	100.0
Health care		85.1	76.3	84.5	86.6	94.1
Cultural and physical development		76.5	43.1	78.1	40.3	73.2
Education		75.5	68.5	76.5	68.4	77.2
Social protection and social security		54.8	31.7	28.8	31.6	34.6
<b>Total</b>		40.1	48.7	32.9	31.8	47.3

Source: State Treasury of Ukraine